

Chapter X

Results and Recommendations

The previous nine chapters of this report indicated areas where environmental problems produce market opportunities for environmental technology and service (ETS) providers specializing in water transmission and purification, wastewater treatment, air quality, energy efficiency and renewable energy, industrial environmental management, solid and hazardous waste management, and agriculture. This chapter recounts some of the observations obtained from the data gathering process, the results of survey research, and the suggestions made by participants at a forum held in Tijuana on April 26, 2002. “Study participants” is used in this chapter to refer to people who provided input to this report through their comments on the survey forms or during interviews. These recommendations are aimed at California ETS providers, representatives of California state government, and individuals at Mexican agencies or companies. The recommendations deal primarily with finance, networking, and other export promotion issues.

Financing

Access to affordable finance options has been considered one of the major stumbling blocks to building environmental infrastructure in Mexico and to increasing exports of environmental technology and services from California suppliers to Mexican customers. Although a number of finance programs are available and identified in Chapter IX, opportunities for improvement remain.

California ETS Companies

Many California ETS companies indicated that they would require financial and payment guarantees/assurances as incentives for them to consider doing business in Mexico. A number of existing public finance programs—at the Small Business Association (SBA), Overseas Private Investment Corporation (OPIC),

Export-Import Bank (Eximbank), the California Export Finance Office (CEFO), and the North American Development Bank (NADBank)—provide such guarantees. For instance, CEFO provides loan guarantees for 90% of a loan and has terms designed for facilitating exports of small and mid-sized companies. However, CEFO statistics indicate that only 7% of the guarantees it issues are made for exports to Latin America, of which only a portion goes to Mexico.¹ In contrast, 54% of the guarantees are for exports to Asia and 24% for exports to Europe.² These results suggest that companies that could be obtaining guarantees for exports to Mexico are unfamiliar with the program or find some of the terms to be unattractive. More research needs to be done to determine why companies are not taking advantage of opportunities to export environmental products and services to the Baja California peninsula.

Recommendations for California ETS Companies:

1. Make financial agreements with customers according to current economic conditions (i.e., recession) and offer discounts on timely payments.
2. Invest time in learning about financing opportunities that could support company export growth. Contact local trade specialists at the U.S. Department of Commerce; California Trade, Technology, and Commerce Agency; Small Business Assistance Center; California-Mexico Trade Center; or other local organization for assistance.
3. At the forum, Mexican lawyer Daniel Gutiérrez presented information that conveyed the following recommendations:
 - Whenever possible, companies should sell to Mexican customers in terms that are Cash in Advance to minimize credit risk. Other less risky payment methods are letters of credit (sight drafts) or documents against payment or acceptance.
 - If selling using the Open Account payment method, companies should invest substantial due diligence to ensure that they receive payment. All paperwork should be reviewed by experts to make sure that it is legally binding and complete. Gutiérrez mentioned several cases where sellers depended on promissory notes

(Pagaré) to guarantee payment, but faulty wording of the note prevented sellers from collecting payment after the buyers' default. Credit insurance can help minimize losses.

- To avoid being charged permanent establishment taxes, transactional value-added taxes, customs valuation, non-tariff barrier compliance risks, companies should either sell and deliver product in the United States or enlist the services of a customs broker/freight forwarder/consignee.

California Agencies and Government

Over the past decade, the State of California has made great progress in improving cross-border relationships and collaboration. The continuation of pilot programs such as the vehicular inspection program and wastewater monitoring program is important, as is the exploration of other programs to strengthen ties in the region.

Recommendations for California Agencies and Government:

1. Efforts should be continued—and perhaps expanded—to engage in outreach to businesses that can benefit from California financial programs, such as the CEFO and I-Bank.
2. An entity in California should be designated to establish and maintain networks for disseminating information about financing and other trade support information. The Small Business Development and International Trade Center at Southwestern College in San Diego is ideally positioned to serve as this information clearinghouse both because of its proximity to the California-Mexican border and because of its affiliation with the California-Mexico Trade Assistance Center network in addition to others. This entity should receive funding (an annual allocation of approximately \$200,000 would be appropriate) for coordinating inter-agency outreach programs.
3. The CEFO and I-Bank should include environmental technology and services as a classification for program evaluation. Currently, CEFO statistics do not specify environmental technology and services as a unique industry category. As a result, the environmental exports that are being made using CEFO guarantees are obscured in the categories of general manufacturing, high-tech, food and agriculture,

- and services. This measurement would be useful in tracking growth in the California industry's influence in Mexico.
4. The I-Bank's mandate should include projects on both sides of the Californian-Mexican border, where investments in Baja California would improve environmental quality in California. Financial arrangements should stipulate that a certain percentage will come from producers in California.
 5. Cal/BECC should be more active in tracking and disseminating changes in the BECC and NADBank and widely publicizing this information, working with Cal/EPA, the California Trade Technology and Commerce Agency, and other key agencies and organizations.
 6. Cal/BECC could expand its mandate beyond environmental infrastructure and target NADBank for access to funds for applied research, training, and scientific research. For example, Cal/BECC could partner with the Imperial Valley Campus of San Diego State University in Calexico to develop capacity-building programs and conduct applied research on environmental health issues.
 7. To provide incentives for Southern California companies and municipalities to invest in the Baja California peninsula, a program should be developed to give pollution credits at a 2:1 or similar ratio for those organizations that invest in projects in the border region that reduce pollution in and near California.

Mexican Government and other Mexican Customers

Study participants indicated the need for flexibility in financing to deal with economic crises when they occur. For example, the devaluations of 1976, 1982, and 1994-5 severely affected the ability of the Mexican government and customers to fulfill their debt obligations and follow through with planned projects. The Mexican market has yet to completely recover from the devaluation in 1994–1995.

Study participants would also like to see financing opportunities that are tied to environmental protection policies in Mexico. For example, the *Industria Limpia* program provided the incentive of regulatory relief for companies that successfully participated in the Mexican government's environmental auditing

program. Companies participating in the program were inspected less frequently for regulatory compliance. Enforcement actions provide an opportunity for companies and government agencies to finance cleaner technologies and infrastructure if polluters are able to purchase equipment that improves environmental quality in lieu of paying fines. For instance, enforcement of air emissions at the plant level provides the opportunity for the purchase of air filters and/or pollution prevention equipment to be made instead of payment of fines. Above all, study participants stressed the need to focus on long-term solutions despite short-term political pressures.

Recommendations for Mexican Government Agencies and other Mexican Customers:

1. The Mexican government should create incentives for companies to purchase environmental technology and services, thereby creating a market. Several options for incentives would be: regulatory relief, using fines at individual plants to finance the purchase of pollution prevention/control equipment and services, or permitting the purchase of pollution prevention equipment to be made in place of the payment of fines. Another possibility could be to create an incentive program to reduce inspection frequency if pollution control equipment is installed voluntarily. This program could be a joint program between California and Baja California in which Baja California officials provided regulatory relief if companies voluntarily purchased environmental technology and services from Californian companies.
2. Government should continue work to ensure the timeliness of communication and transparency of bidding processes. Some Mexican agencies have begun this effort. For instance, SEMARNAT has developed a web site to help companies track the progress of their permit applications. Another government web site is www.compranet.gob.mx, which increases the transparency of bidding procedures.
3. Mexican officials are advised to continue collaboration with agency counterparts in California to exchange information about best practices on each side of the border, facilitate the transfer of methods and/or technologies, as well as identify infrastructure and capacity-building

opportunities. Collaboration to develop water monitoring programs in the Tijuana River Watershed and vehicular inspection programs in Tijuana are examples of effective collaboration.

Networking and Cross-border Collaboration

With regard to networking, participants at the forum identified the need for increased dissemination of information and outreach. Many ETS companies lack awareness of the potential market in Mexico and are unable to make meaningful connections in Mexico. The California Trade Technology and Commerce Agency and the Small Business Development and International Trade Center can help California companies become more aware of opportunities and direct them to resources that can minimize cultural challenges. Although some companies struggle with the language barrier, a majority of those surveyed identified language and cultural familiarity as some of California's strongest assets in doing business in Mexico.

Recommendations for State of California and Government Agencies in Mexico:

1. The state of California should provide regular opportunities for networking with Mexican officials and companies that are potential customers and/or partners for California-based firms. For instance, the California Technology, Trade, and Commerce Agency can work with the Small Business Development and International Trade Center in Chula Vista, California to organize regular, periodic trade shows for California suppliers and Mexican customers.
2. Officials from the Cal/EPA, California Technology, Trade, and Commerce Agency, and government agencies in Mexico should exchange more information about their programs and individual responsibilities of individuals within agencies. Sharing this contact information will facilitate outreach and strengthen current communication channels. There is a need for more persistent dissemination of information about changes in Mexican environmental laws and regulations, personnel updates in Mexican agencies, and projects that create trade leads. Designation of one person by

Cal/BECC to coordinate the flow of information about Baja California, Baja California Sur, and California would increase the flow of information to California companies.

3. As part of a California-Mexico networking effort, officials from the states of California and Baja California should work together to develop a Transboundary Environmental Impact Assessment process whereby the neighboring party is notified of projects that could have a potentially harmful environmental impact to them. Transboundary environmental impact statements should be readily available to stakeholders on both sides of the border.
4. Other participants at the forum stressed the need for increased environmental education and involvement with schools. Mexican and Californian agencies can contribute to the development of curricula and outreach.
5. The Small Business Development and International Trade Center in Chula Vista could be supported to serve as a clearinghouse to provide information for environmental export opportunities to California companies and Mexican customers.

Recommendations for California ETS Companies and Mexican Customers:

1. California ETS companies should more fully explore and take advantage of export promotion resources available through the U.S. federal and California state governments. They should also provide feedback to trade counselors regarding opportunities for improving their programs.
2. Some study participants at the April 2002 forum recommended that Californian and Mexican companies become more involved in K-12 schools and networked with other companies through conferences of mutual interest that involve the community. Community outreach is especially important in consulting projects that have significant perceived environmental, health, and safety risks, such as the liquefied natural gas projects that are proposed for Baja California's coast.
3. It is also critical that companies familiarize themselves with business regulations in Baja California and Mexico. Companies that succeed in the Mexican market will find that the role of personal contacts, particularly in export and import are essential for the success of the

transaction. Networking is an important part of being proactive in the market.

Export Promotion

When asked whether they perceived the export of ETS products to Mexico to be increasing, decreasing, or remaining constant, most study participants indicated that they believed it to be increasing and a majority deemed the Mexican market important, extremely important, and even vital. Table 1 lists, in descending order, the perceived advantages and disadvantages of California companies exporting ETS products to Mexico, as identified by the companies and agencies that participated in the survey. Although most believed strongly in the quality of California's environmental technology products and services and believed their location was an asset, many also saw the operating costs for businesses in California as high and therefore an obstacle to exporting.

Table 1: Perceived Advantages and Disadvantages of California Suppliers Exporting Environmental Technology and Services to Mexico.

Advantages	Disadvantages
1. Location/Geographic Proximity	1. High costs (land, labor, prices, services, etc.)
2. Culture/Language/Hispanic workforce	2. Strong dollar
3. Cutting edge technology and services	3. Language/language barrier
4. NAFTA and support services	4. Complexity of business requirements in California
5. Infrastructure	5. Patent infringement and risk of piracy

Recommendations for State of California and Government Agencies in Mexico:

1. The State of California should collaborate with Mexican organizations to hold more supplier shows for industry in Baja California, which will provide a matchmaking opportunity for California suppliers and Baja California industry buyers.
2. The State of California should work with Baja California and Baja California Sur to create continuous information sharing and networking

programs for suppliers-industry-government. As part of this information sharing process, they should engage in more outreach to communicate changes made by PROFEPA and laws that govern other countries.

This outreach could be coordinated by the Small Business Development and International Trade Center in San Diego.

3. The state of California should provide public outreach through different methods of communication, including workshops, web pages, flyers, and others. Agencies within the state should work together to reach audiences in Mexico. For instance, Cal/EPA maintains excellent relations with environmental officials in Baja California and Baja California Sur, which can be beneficial to the California Technology, Trade, and Commerce Agency. By working together, agencies within the California state government can provide a synergy that benefits California companies in a way that federal programs do not.
4. Export promotion efforts should target companies with different levels of experience (from novice to advanced). The state of California should work on programs that ease the company's concerns about collecting payment and should provide support in marketing and selling in Mexico.

Recommendations for California ETS Companies and Mexican Customers:

1. Companies need to get information out about their products and services. Networking with trade associations and chambers of commerce in Mexico would be beneficial.
2. California ETS companies should offer affordable solutions to Mexican environmental challenges rather than attempting to sell the most sophisticated technology available.

Final Observations

Despite a flurry of activity in environmental technology and service export promotion programs in Mexico during the early 1990s, attention has shifted away from the NAFTA region to Asia. Yet, environmental degradation continues in Mexico and particularly in the northern region of the Baja California peninsula, where population and economic growth outpaces city planning and infrastructure development. The strengthening of NAFTA institutions and increased cross-border cooperation provide a timely opportunity to address the environmental

challenges in the peninsula while also benefiting California's economy and the profitability of ETS providers in California. Investments in environmental technology and services for the Baja California peninsula provide multiple benefits for California residents. Not only can increased exports of California goods and services create jobs and improve the state economy, but these activities also improve environmental quality in Baja California, which is directly beneficial to California residents. Improvements in environmental quality south of the border contribute to improved quality of life on the north side of the border.

References

¹ California Technology, Trade and Commerce Agency. 2002. "California Export Finance Office Update. (Cited 29 July, 2002),

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² California Technology, Trade and Commerce Agency. 2002. "California Export Finance Office Update. (Cited 29 July, 2002),

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